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The Conference Board

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Human Resources Outlook 1991

Highlights are:

- *Sluggish, no-growth economy throughout 1991*
- *Continued rise in health care costs; managed care growing as means of control*
- *Variable pay systems spreading in spite of difficulties*
- *More environmental and occupational health regulation on the way*

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Human Resources Outlook 1991

by Audrey Freedman

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The Conference Board's annual meeting of human resources experts took place on November 8, 1990. Panel members discussed the current economic situation, compensation trends, human resources developments, and political events. This process provided the predictions for 1991 reported in the table on page 7. The views quoted were submitted by the participants in writing prior to the discussion.

From the President

For more than a decade, The Conference Board has issued an annual outlook for human resources managers of business enterprises. It attempts to look ahead one year, and more, in identifying and discussing the important issues that will challenge management in the near term. This year, for the first time, some observations about the unification of the European labor market have been included.

We thank the active and involved members of the outlook panel, who generously contributed their time and expertise to the undertaking.

PRESTON TOWNLEY
President and CEO

Executive Summary

The Conference Board's Human Resources Outlook panel expects economic stagnation will continue into 1991, with no recovery in the second half of the year. This view was not unanimous, however. At least one member expects recovery to begin in the second quarter of 1991; on the other hand, at least one member expects recession through the year. The panel projects a lower rate of consumer price inflation than currently prevails (Fall 1990).

Health benefit costs are expected to continue rising. There will be added pressure on coverage as the unemployed either lose insurance or find it hard to pay high rates while jobless. Nevertheless, a major political breakthrough is not expected.

Continued pressure for a Civil Rights Act is expected. The panel also anticipates considerably more regulation of environmental hazards, and of workplace exposure.

The panel offered thoughtful analysis of the role of supervision in a time when first-level workers have more autonomy, and must use more judgment in performing their jobs. It also discussed the uses of variable pay, its successes and limitations. When variable pay is linked to an individual's or a team's output performance, great difficulties arise in adequately identifying and measuring that output. Often, factors outside of employees' control may adversely affect their variable pay.

Within a no-growth economy, the panel considered possibilities of more struggle between groups of economic competitors in the society of the 1990s. The meliorative role of corporations and human resources managers was proposed.

Two brief sections discuss several aspects of integration within the European labor market as 1992 approaches. The subject of labor market integration in Europe is important to U.S. companies operating internationally.

Human Resources Outlook 1991

Amid some gloomy but unclear statistics on the overall performance of the U.S. economy, the Outlook panel considered whether stagnation has developed into decline at year-end 1990, and how long this weakness will continue. As always, the economy remains an inescapable setting. However, more effective use of human resources remains the only route to economic growth and competitive advantage. Therefore, much of the following report covers management initiatives that suggest progress, even in the face of a dull economy.

Perhaps extraordinary efforts are impelled by economic doldrums. If so, it would mean that 1991 will be a year of rapid and systematic management tightening, and therefore great productivity improvement. One panel member, Mitchell Fromstein, commented that flaws in management of both business and public life have become recognizable in recent years. This, he said, creates opportunities for movement and reform.

Nevertheless, the outlook is subdued, though not acutely pessimistic. Gene Remoff observed:

"In any event, 1991 is not going to be a fun year. I hope that some issues that require sustained attention from human resources practitioners don't get shunted aside. We need to get U.S. managements and organizations better positioned and engaged in:

- competing in global markets
- striving to improve further the quality of our firms' product and service offerings
- pressing for better education of our young people
- better recruitment, selection and training of the new work force, and help them address work and family conflicts
- developing more leaders, not just managers

"I just outlined the major topics of the *1990 Human Resources Outlook*!"

This comment raised an interesting point. All of the panel members were concerned that today's economy might cripple the efforts of management to address the needs discussed in the *1990 Human Resources Outlook*. Everyone observed that last year's suggestions still apply. If anything, they are more important in times of uncertainty because they offer opportunities for reconstruction and industrial vitality.

Overall Economic Outlook

The panel clearly expects 1991 to be a year of continued economic stagnation, in which unemployment will remain about 6 percent all year (see table below). This view was conditioned by uncertainty about the worldwide effects of a volatile situation in Iraq and Kuwait; it was not a consensus view, as can be seen from the wide divergence of predictions about the unemployment rate shown in the table. Several of the panel members are quoted on this point below.

Forecasts for 1991 by The Conference Board's Human Resources Outlook Panel

	Median	*Range*
Increase in employer costs for wages & salaries in private industry	4.0%	3.4 to 5.7%
First-year wage and benefit increases in major union contracts	3.8	2.0 to 4.9
Increase in labor costs per unit of output in manufacturing	1.9	1.0 to 4.9
Rate of inflation (average increase in Consumer Price Index)	5.9	4.0 to 7.0
Unemployment average during 1991		
First quarter	5.9	5.6 to 6.7
Second quarter	6.0	5.5 to 7.5
Third quarter	6.1	5.4 to 7.6
Fourth quarter	6.0	5.2 to 7.4

Audrey Freedman
The Conference Board

The outlook for inflation is modest, once the effects of an oil price jump have worked into most parts of the Consumer Price Index. For example, the panel expects the general wage level (as expressed in the Employment Cost Index for wages and salaries only, excluding benefit costs) to rise about 4 percent or less. For union contracts, the rise will be considerably less, because benefits account for much of any overall increase in total compensation and are included in the panel's prediction. The underlying push of unit labor costs is expected to be less than two percent, with wide variation among panel members. This low rate of increased labor cost suggests that productivity increases in manufacturing will moderate the cost-push effects of wage increases.

All of this is consistent with a view that there are no inflationary pressures in this stagnant economy. To be sure, gasoline and heating oil have already driven up the CPI (Consumer Price Index) by October 1990. In the next few months, higher transportation costs will affect the price of goods, notably food. Other than the spreading of oil price increases, no other pressures are at work—and the economy is certainly not overheated. This is why the panel expects a rate of consumer inflation (5.9 percent) lower than that of late 1990: 8.9 percent in the three months ending in October 1990.

The divergence of views and the amount of uncertainty about the overall economy as it relates to human resources merits fuller quotation. Alan Ewalt said, in some exasperation:

"We've finally done it—talked about a recession so much that we have ginned one up. It is clear to most of us that the rate of economic growth is very low and that a continuation of the present slow deceleration is easing the economy into a period of recession. Perhaps a bigger question is: Are we entering a worldwide recession? Japanese banks are pulling in their horns. The Japanese stock market is down about 25 percent. Eastern Europe is trying to get its act together, while Russia flounders in its own sea of economic woe. Worldwide demand is slackening. The U.S. economy may simply be reflecting a broader global slowdown.

"Notwithstanding moving into a recession, chances are it will be relatively mild. For example, heavy layoffs have not taken place (except in aerospace). Unemployment numbers, although increasing, have not shot up at a rapid rate. Inventories, which typically are at very high levels entering a recession, are, with the exception of retailing, at moderate and controllable levels, thus suggesting that potential reductions in force would be more moderate than if these inventory levels had been dramatically higher."

Dan Mitchell suggested the possibility of continued stagnation in October, yet by the November 8 meeting he had changed his mind and offered the most pessimistic view of any panel member (he was at the high end of the range on the unemployment rate). His October analysis of the reasons for wage moderation is important for human resources managers:

"My gut feeling is that with a largely nonunion labor force and rising unemployment, the Fed should not assume that the oil price shock will somehow factor into an ongoing wage-price spiral. Who will force nonunion employers to mark up wages over prices, when the same employers (unless they're in the oil

Daniel J.B. Mitchell
UCLA Anderson Graduate School of Management

business) are being squeezed by the same energy price increases? In the 1970s, there were two kinds of international reactions to oil shocks. There was the Japanese reaction, which basically amounted to 'accepting' the real wage loss when external prices rose, and the European approach of trying to preserve the real wage. The Japanese approach produced a relatively short and shallow economic pause; the European approach produced chronic high unemployment and sluggishness. Between the two extremes was the United States. Our economy has probably shifted more toward the Japanese model since the 1970s. But does the Fed know it?

"In short, prosperity is not around the corner."

Rex Adams pointed toward the credit and monetary aspects of the economic cycle:

"The real economy is not doing particularly well and there is more downside risk than upside potential in the

near term. On the plus side, in the U.S., exports have held up well as the dollar has weakened, the agricultural sector has come back strongly, employment, while slipping, has generally not fallen out of bed, inventories are in excellent shape, and consumers haven't panicked yet. But, negative factors are also in play and they are troubling.

"We're in a bind with regard to both fiscal and monetary policy. On the monetary side, the U.S. already has the lowest real interest rates among the G-7 nations and the dollar, in consequence, has already fallen sufficiently far to give rise to renewed concerns about inflation. On the fiscal side, a $40 billion cut in the deficit in the first year is not much and may not even materialize. So, I don't expect much near-term stimulation to domestic capital formation from that source, and what relief we do get is likely to be more than offset by a reduced willingness of foreigners to hold dollar assets.

"Foreign portfolio managers cannot have been inspired by the shambling charade of economic management they have just witnessed from our lawmakers and, in any event, may have more pressing

Rex D. Adams
Mobil Oil Corporation

things to do with their capital. The Germans, in particular, have ambitious and very costly undertakings in the East to finance. The Japanese have suffered an erosion in both real estate and securities values at home that reduces the amount of disposable capital available for investment in the U.S., and they have already got a sizable and unhappy financial exposure in depressed U.S. property markets. And everybody needs more money to finance the oil price surge, for as long as that problem exists, with particularly severe consequences for the Third World countries, who will have to get some kind of financing from somewhere. So where will the capital come from to fuel the productivity growth the United States needs to maintain economic momentum and enhance our global competitiveness? It will have to come from a high domestic savings rate achieved through reduced consumption, which in the near term must necessarily prolong economic stagnation or precipitate recession. In my view, the sooner consumers

David Lewin
UCLA Anderson Graduate School of Management

stop spending and start saving, the better, and a mild recession would be worth the price.

"I expect about a year of flat to mildly negative growth, which doesn't particularly concern me if it prompts some increase in the domestic savings rate, but longer term I worry a lot about the pace and efficiency with which U.S. industry can marshal adequate capital resources to maintain a globally competitive position."

David Lewin expressed the "mild recession consensus." He distinguished among regions and also, to some extent, industries, in his outlook:

"Several factors are pointing to an economic downturn in 1991. These include slowing productivity growth, rising unemployment, anticipated higher marginal federal income tax rates, declining levels of housing starts, higher energy prices, changes in financial reporting to account for future increases in retired employee's benefit costs, and increases in state and local government taxes and tax rates. The combination of these factors is very likely to produce an economic downturn for 1991, perhaps extending into mid-1992.

"I do not anticipate a severe downturn, however, because of certain offsetting, even expansionary, forces. These include an accelerating rate of technological change, continued movement of foreign capital and labor to the U.S., accelerated investment and production in the U.S. of goods and services by foreign-owned and operated enterprises, sustained initiatives to combat rising health care costs, notably cost-sharing among employers and employees, heightened use of market and market-like incentives to provide 'public' services, continued efforts at deregulation, including in the telecommunications and utility industries, and higher than anticipated levels of defense spending.

"There are rather strong prospects for a reappearance of economic growth in the Southern and Southwestern regions of the U.S. and for economic decline in the Northeastern region—comparable, perhaps, to events of the mid-1970s to mid-1980s. The Midwest will not suffer economic decline, and may in fact experience modest to substantial economic growth, as foreign-owned enterprises

Gene R. Remoff
ARA Services, Inc.

continue to view the Midwest quite favorably from a direct investment point of view. The Western region may reflect some of the same characteristics as the Northeast, notably rising tax rates; however, its relatively younger infrastructure and capital stock should lessen the downside impact relative to that in the Northeast."

Gene Remoff found some possibilities for good outcomes. The idea of correcting previous mistakes also appears in his discussion of profits and dividends:

"My view, largely influenced by the behavior and expressed expectations of operating executives with whom I am in contact, is that our economy in general is going to remain stagnant, perhaps for as long as two years. If there is a downturn it will have a modest impact reflected in a move upward in unemployment to 6 or 6.5 percent and no growth in GNP.

"In 1991, we are, of course, going to see less of an effect on recession-resistant businesses that sell essential goods and services to institutions, government and social service agencies that are themselves not sensitive to near-term changes in business conditions.

"There are also businesses that are reporting significant reductions in profits and dividends that in retrospect had no reason to offer such high returns to their investors. The best examples are many banks that have now lowered their dividends to a level that equates better with the risk/return ratio one should expect from investing in a conservative financial institution (which is what more banks are now returning to being).

"As an HR practitioner, my own sense is that corporations are more likely to take a hit down to a lower (but still positive) level of return on investment, that investment in higher risk or longer-payoff ventures may slow or be delayed and that only limited variable expenses in direct labor and already minimal inventories will be reduced to correspond with the leveling off of sales activity.

"Some firms, less burdened by debt than highly leveraged competitors, may actually gain market shares as such shaky competition withdraws from marketplaces that don't give them needed cash flows. In some cases, they may seek to sell off assets.

"Additionally, privatization (i.e., conversion of government-run agencies and institutions to private contractors) will also add newly accessible market opportunities for some firms, particularly in the services sector. This possibly includes everything from postal services to refuse collection, operation of sports and recreational facilities, correctional and health care institutions, and domestic military base services."

The odd man out on economic outlook was Mitchell Fromstein. Briefly, he feels that we have been experiencing recession in 1990, and that 1991 will begin to show recovery. This view was based on the activity of the temporary help industry, which he and Dan Mitchell both consider an important leading indicator for the entire economy:

"For the sake of providing a totally contrarian point of view (and because my untrained sensors tell me so), I am going to pass up both of your options and postulate that 1991 may, in fact, be a year of 'upturn.' Understanding that you need a recession before you can have a 'recovery,' I submit that 1990 was a recession year—the impact of which was masked by regional variations, a lack of the traditional over-employment and wage inflation, and the Federal Reserve policy of interest rate containment. Nevertheless, major East and West Coast market centers, particularly in the Northeastern and North Central regions, suffered classic recession conditions caused by over-employment, wage inflation, and property value inflation. A combination of these 'selective' regional recessions and the lack of a real 'boom' in other regions, produced, in my opinion, the stagnancy which characterized the U.S. economy as a whole.

"The arguments for a recession scenario are clearly evident. Employment (new jobs) is down while unemployment is up. In both instances, however, the changes are marginal and, to date, are well within the parameters which our firm's projections anticipated. Consumer confidence is low but consumer spending remains at a level which is far from recessional in nature. The consumer may be cautious but she/he has yet to retreat from the marketplace. Every business executive is worried but capital spending plans remain as they were early in the year. Credit is tight but the economy is awash in chaos and reasonable borrowing requests are being aggressively met by financial institutions who are not impaired by flawed lending practices of the 1980s. Interest rates have not risen perceptibly but neither have they fallen. The U.S. dollar is weak but that condition has made U.S. exports uniquely attractive to foreign buyers. It appears to me that the classic structure of a recession pattern is not in evidence.

"Now, let me move to a more parochial approach to support my contrarian view. It is based on a set of conditions which I know very well firsthand rather than what I read. The U.S. operations of Manpower Inc.

have a long history of mirroring economic trends and conditions. A retrospective analysis of the average daily number of worker hours from our customer billings indicates that our trends lead the economy both into and out of economic downturns. At the moment, these trend patterns are clearly showing 'recovery' (i.e., they say we've had an 18-month decline from a top which reached bottom in March or April of 1990 and the trend has been rising since that time). The trends are particularly upward in the industrial (manufacturing) sector and flat in the white collar and service sectors. Once again, these are classic conditions of previous slump and recession bottoms. Our advance 'bookings' are as strong as they have been in the past and, while everyone is cautious, the level of interest in additional support workers is very good.

"I will make my guess on this basis and hope that we are not having false labor pains.

"My hedge concerns the Mideast crisis which I believe simply added a new uncertainty that caused a psychological imbalance in an already fragile situation. If we have war, I cannot predict its impact.

"On balance, here is my prediction. The fourth quarter of 1990 will be a mess, with everything looking

Alan R. Ewalt
National Medical Enterprises

grim and black and declarations of recession abounding. Quarter one of 1991 will be weak and gloomy following an inconclusive holiday period. Quarter two of 1991 will show broad recovery elements but no significant growth. Quarters three and four of 1991 will show evidence of recovery, with unemployment steady or down, employment clearly up, and industrial production showing buoyant gains.

"In short—a year of recovery from what was an unofficial and relatively mild recession in 1990. Now, before you have me declared insane, give my prediction five to six months to ripen."

Industries that have been hard hit are those affected by interest rates, such as construction and real estate. Military suppliers are affected by Federal budget constraints and a complete turnaround in U.S.-Soviet relations. Alan Ewalt described this in Californian terms:

"Most defense industry analysts view the Persian Gulf crisis in the short term and consider that defense

Madelyn P. Jennings
Gannett Company, Inc.

industries have enjoyed only a temporary reprieve from what surely will be major expenditure reductions. Southern California in its aerospace industry, in spite of the Persian Gulf buildup, has not received new contracts for airplanes and has not reversed its tide of major layoffs. The Los Angeles Private Industry Council, which has responsibility for administering training funds under the Joint Training Partnership Act and normally focuses on entry level jobs, has already begun to get pressure from the mayor of Los Angeles to help displaced defense workers."

Madelyn Jennings said, "We have been lucky unemployment rates have been as modest as they are, considering the state of our economy." One of the reasons for this is the extremely slow rate of growth of the labor force (about half of one percent in 1990). Nevertheless, when unemployment is rising from its Spring 1990 levels of just above 5 percent to the predicted level of about 6 percent in 1991, the flowout of unemployment insurance funds will also be rising. The payout volume may be spread quite unevenly from state to state. Initial claims for unemployment insurance are now running about 100,000 per week higher than last year at this time. Dan Mitchell discussed this as follows:

"Here are figures on the proportion of job losers who receive unemployment insurance (UI). (Note: You usually hear about UI recipients as a percent of all unemployed, but it is chiefly job losers who are eligible for UI.)

State UI recipients as % of job losers: 1979-1989

1979:	92.3%
1980:	84.9
1981:	71.4
1982:	64.8
1983:	54.3
1984:	56.0
1985:	63.1
1986:	65.5
1987:	65.3
1988:	66.7
1989:	72.2

"These figures suggest 1) that the ratio fell in the 1980s due to eligibility cutbacks and the increase in long-term unemployed (who exhausted their benefits without Congress extending them) and 2) that economic recovery and probably some relaxation in eligibility standards brought the ratio back somewhat by 1990. UI weekly benefits were about 35 to 36 percent of the weekly wage over this period.

"Let's compare this to what happened to this series in the 1970s recession and recovery.

1973:	96.3%
1974:	100.9 (!)
1975:	90.9
1976:	81.3
1977:	83.9
1978:	91.3
1979:	92.3

"The obvious conclusion is that we used to be more generous.

"UI research suggests that the duration of benefits does matter in terms of job seeking. There is a bump-up of people who find jobs after benefits run out. This gives conservatives an argument for not extending benefits. UI is part of the federal budget, even though it is largely state administered. This may also tilt against extending benefits. Even if the Gramm-Rudman-Hollings targets are lifted, there will still be pressure to do something about the deficit which will be soaring from a weakened economy.

"In short, I can't see anything dramatic happening to UI, especially if there is only a short recession (or no official recession at all)."

Mitchell Fromstein pointed out that, even if higher employer taxes are required to support the state/Federal fund, they would take effect after a recovery is in progress:

"The impact of significant increases in unemployment on the unemployment compensation system will be twofold: 1) increased claimants deplete the fund, and 2) decreased payments into the fund prevent regeneration of reserves.

"The ultimate effect is quite simple: companies will be burdened with higher payroll rates for 2-3 years after a recovery. The controlling factor is the length and depth of the recession.

"Since my scenario says 'recovery,' it does not anticipate unemployment compensation (UC) problems. The funds have been built up over a five-year expansion period and, thus, are in a condition to take a short pressure period without crisis."

If, however, recession or stagnation persists, workers' problems will become more severe. Alan Ewalt said:

"The Republican formula over the last 10 years of substituting economic progress and prosperity for growth in social programs will become unraveled in the face of a lengthy recession. The Democrats have done a masterful job in the debates of tax increase/budget reduction to take the focus off budget reduction and to paint the Republican party as the champion of the rich. They have, at least for a period of time, accomplished this to such an extent that it may have permanently damaged President Bush's popularity. The low-wage workers have, I believe, tolerated this distinction as long as the economy was in good shape and they felt a sense of security if not progress."

Health Benefits

Unique in the industrialized world, the U.S. links health benefits with employment through a private insurance-based mechanism. As a consequence, rising health care costs are felt acutely by employers, who have little control over this expense. This is a pressure that has grown for a decade, without yet causing a major shift in the "policy" of employer-paid private insurance. Companies have tried many methods to reduce costs, with the current trend moving toward managed care.

Mitchell S. Fromstein
Manpower Inc.

During this decade, also, employment relationships have become a great deal more fluid. Stable, long-term employment with one company is rare. Multiple employers, varied careers, and self-employment periods have become common. With this increased discontinuity in employment relationships, coverage under private health insurance plans is constantly being severed, patched together, broken and shifted. The change in stability of employment, alone, has strained coverage and left many people without protection.

Now, add rising unemployment. Madelyn Jennings described the effects:

"Individuals without jobs are going to find it difficult to pay for insurance even though COBRA [Consolidated Omnibus Reconciliation Act] is available. Many may opt to go without insurance and there will be governmental pressures to provide

insurance for them. Employers will probably realize an increase in their bad experience for such coverage. The result will be a stronger push for some kind of minimal national health insurance.

"Many consultants are peddling partial answers to the health care system cost increases through managed care, HMO networks, PPOs, etc. They are minor in their impact.

"I would not say we have a serious breakdown in our health care system, but a country with 30 million uninsured and corporations facing 15 to 20 percent increases each year in medical costs can't stay in that situation.

"I envision more cooperation between health care deliverers and insurance companies, business and government. Ultimately, health care rationing may be inevitable."

Gene Remoff pointed out that the continuation of benefits under COBRA is a very expensive proposition:

"Certainly anyone who has lost a job is going to experience economic stress in deciding to pick up the full cost of their health care coverage, under COBRA, for the period of their unemployment. To some extent, the stress in such a situation would be tempered by the degree to which the laid off individuals determined correctly that they weren't going to require treatment or they had working spouses with coverage available in their place of employment.

"But the laid off person may have to make a tough, personal economic decision. One choice is to continue coverage (in expectation that it may be needed) at a dramatically increased personal cost, since the employer had previously covered at least 70 percent of the health care premium. Of course this would be done concurrent with a cutoff or reduction of take-home pay to the level of unemployment insurance payments.

"The alternative is to drop the coverage available under COBRA, avoid medical treatment, and if it is absolutely necessary, seek help as an indigent (or use personal funds). If this route is taken the individual may find he/she is denied access to many hospitals unless in a life threatening condition. If accepted by the hospital as an indigent patient, the institution will seek to cover the cost of such unreimbursed care by adding it to the fees it charges patients treated under indemnity plans, thus helping to drive up the cost of employer health insurance coverage.

"At various volumes of such cases, stress therefore builds on the unemployed individuals and their families, the medical providers who must decide how much unreimbursed care they will provide, and the insured employers to whom such costs will be shifted. If such occurrences were voluminous and the condition seemed likely to continue for some time into the future (a deep, long recession), pressure could build on the political front to compel employers to provide discounted rate coverage for laid off employees or for legislation providing access to health care—perhaps with qualifications similar to those needed to collect unemployment insurance payments."

David Lewin added:

"At the levels of unemployment I envision for 1991, there will be a modest but not a major increase in the number of people who are not covered by employer-provided group health insurance. I don't expect this 'fact' to produce a groundswell for new federal health care coverage initiatives. But such initiatives may well emerge and be 'driven' by the continuing, long-run increases in health care costs incurred by employers. It is employers, more than workers or the unemployed, who will spur new federal initiatives toward national health insurance in the U.S. possibly coming to fruition in 1991.

"The most likely development, not breakthrough in a fundamental sense, is the adoption of a national health insurance scheme for the United States. Such an initiative is supported, in particular, by executives of large corporations, who feel that they have borne an excessive burden of rising health care costs—and this despite the numerous health care cost-sharing and containment initiatives undertaken in recent years by these firms."

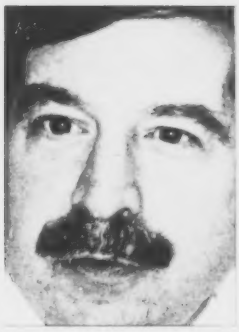
Dan Mitchell expects that, ultimately, mandated benefits will be imposed on all employers, and pointed out that this would be a national system:

"The argument is that employer coverage is the dominant mode of health insurance, thanks to our generous tax code. For those outside the system but with some employment connection, the easiest way to provide them with benefits is to mandate it.

"The issue is complex, however.

"1) If everyone is to get employer-provided insurance, we really need to look at such insurance as a public program, not a private one. It is really Medicare for the non-elderly. As such, it ought to be transferable from job to job without worry about pre-existing illnesses and variations in benefits across employer programs. This argues for either turning the insurance program into an adjunct of Social Security (everyone paying into one grand fund as in some European countries) or—if we insist on it being 'private'—the creation of a funding mechanism to facilitate transfers to employers who happen to end up with riskier employees. We need to worry about the mobility aspect since numerous indicators suggest there will be more job mobility—voluntary and involuntary—in the future.

"2) Adding to the pool of covered individuals will also add to the health care cost containment problem: more demand is created for health services. Employers have not proven to be excellent designers of health care cost containment systems. Why should they be? If your



Steven Darien
Merck & Co., Inc.

primary business is making tin cans, why should you also be an expert in health insurance?

"There are really two problems today: coverage and cost. We worry more about coverage as cost goes up, since uncovered persons can't afford the rising out-of-pocket expense. As we cover more persons in reaction to this worry, we drive costs higher. But the system doesn't break down; it simply grows faster than the rest of the economy in price and quantity. An aging baby boom—with its accompanying medical problems—will aggravate this process. But there is no identifiable breaking point that I can see.

"The public policy response is going to be linked to the political climate rather than a trigger point (i.e., rather than a certain share of GNP going into health care). A more liberal climate, politically combined with continuing federal budget problems, will probably push toward mandated benefits eventually."

Steve Darien noted that the short-term extensions of employer group health benefits, under COBRA, are limited.

"Because COBRA benefits are limited in term, severe dislocations and attendant manifestations of stress should be anticipated if downturns are extended and recovery is delayed past 12-18 months. These effects on individual employees, communities, and society at large would require states and the U.S. Government to mount a range of creative programs for coping with and managing stress. This will naturally place greater emphasis on national health insurance and universal coverage for all employees.

"The impact of growing unemployment (and employment in marginal jobs providing no health care benefits) will expand the ranks of the uninsured, exacerbating problems faced by providers and payers due to uncompensated care. The total number of Americans without health insurance is estimated to be between 30 and 40 million, and growing by one million per year. In my own state of New Jersey, almost one million are without any form of private or government-sponsored health insurance, resulting in an uncompensated care burden projected to be $600 million in 1990, growing to $900 million in 1991. Those numbers will grow if there is a real economic downturn in the state.

"Hospitals are not able to simply 'write off' this bad debt: Someone must pay. Historically, these costs have been 'shifted' to those patients with private health insurance in the form of higher charges of services. But increasing attention on cost containment on the part of companies that provide health insurance is reflected in an unwillingness to accept this cost shifting. As a result, private hospitals cannot afford to provide a significant amount of uncompensated care, and as uninsured patients are forced to utilize public hospitals (where they are available), pressure increases on the states, counties and local governments that support these institutions. Many public hospitals around the country are on the verge of collapse from the growing uncompensated care burden—state, county and local governments are not able to increase tax revenues to sufficiently support their hospitals in the face of this increasing demand. Growth in unemployment over the next year or two will only increase this stress.

"Unemployment and loss of health insurance will also impact upon the health of unemployed individuals and their families. Necessary health care will be postponed, medicines will not be purchased, and children will go without immunizations. The future impact of foregoing these items and services will be serious, on the health status of these individuals, and in terms of higher costs.

"Finally, greater unemployment will lead to growth in the number of Americans in poverty, with all of the well-known consequences. Increased drug addiction and substance abuse, depression and other mental illness, violence, and poor nutrition are only a few of the outcomes related to unemployment and poverty."

Gene Remoff pointed out that suffering must always be considered in individual terms:

"The toll of extended job loss is much greater and too often goes unnoticed in the executive office. These tragic consequences have been observed and reported when an employer has shut down the town's primary plant, or, as in the case of the 'rust bowl' of the early 1980s, when whole industrial complexes ground to a halt. But it happens in 'small' cases also."

Alan Ewalt described why the legislation creating COBRA represents a very poor solution to the problems of individuals needing health care coverage:

"This recession is the first recession the U.S. economy has entered in which employees have been protected by COBRA. Although the availability of this safety net is very important, it is also very expensive. For example, in my own company, employees purchasing health insurance for themselves would pay $216 a month for COBRA, and if they elect coverage

A Survey of Surveys: Salary Plans

Organization	*Level of Employee*	*1990 Salary Increase*	*1991 Planned Salary Increase*
American Compensation Association	Executive	5.8%	5.7
	Exempt Salaried	5.5	5.5
	Nonexempt Salaried	5.4	5.4
The Conference Board	Executive	5.5	5.5
	Exempt Salaried	5.0	5.5
	Nonexempt Salaried	5.0	5.0
ECS, Inc. A Wyatt Data Services Company	Executive	5.6	5.6
	Exempt Salaried	5.2	5.2
	Nonexempt Salaried	5.1	5.1
Hay Management Consultants	Executive	6.3	6.0
	Exempt Salaried	5.2	5.3
	Nonexempt Salaried	5.3	5.3
Hewitt Associates	Executive	5.9	5.8
	Exempt Salaried	5.5	5.4
	Nonexempt Salaried	5.3	5.3
William M. Mercer, Incorporated	Executive	5.7	5.7
	Exempt Salaried	5.4	5.4
	Nonexempt Salaried	5.3	5.2
Sibson & Company, Inc.	Executive	5.9	5.7
	Exempt Salaried	5.4	5.4
	Nonexempt Salaried	5.2	5.2
Towers, Perrin, Forster & Crosby	Executive	5.4	5.5
	Exempt Salaried	5.2	5.3
	Nonexempt Salaried	5.0	5.0

Planned salary increases for 1991 remain generally unchanged from the average salary increases reported for 1990. This is a downturn from last year's (1990) forecast, where the majority of projected salary increases were higher than the 1989 reported actual increases. These steady rates of increase suggest an attempt by companies to keep compensation costs at a stable level in response to an uncertain economy.

Elizabeth R. Arreglado
Research Associate

Data compiled by:
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Research Administrative Assistant

Irving Margol
Security Pacific National Bank

their dependents would pay $427 per month to maintain coverage. Unemployment insurance benefits do not go very far after paying such lofty premiums. Therefore, I fully expect employee behavior will be similar to what it has been in prior recession periods (i.e., there will be a rush to obtain services in anticipation of potential layoff and loss of employer paid health care protection). Somewhat different from prior recessionary periods, there will be a rush also on a post-layoff basis during the early months of COBRA participation for employees to receive both elective and needed services after which they may allow COBRA protection to lapse. Financial implications for the employer are significant as I foresee a surge in already dramatically adverse claim experience with the COBRA plan. The loss ratios will surge well past the 150 percent level, which means the employers will underwrite a large portion of these post-employment claims costs.

"Those employees who elect not to take COBRA protection or who can't afford COBRA will do as in the past; that is, they will postpone medical services as long as they are able to in hopes that they will be picked up under a new health care plan before problems become too compelling. This coverage gap is a very unfortunate and sad development that reflects a continued flaw in the U.S. health care delivery system. An extended recession will demonstrate that COBRA is predominately a short-term solution and is prohibitively expensive to provide much long-term usefulness to the unemployed."

Irving Margol pointed out that, with rising unemployment, the burden may be transferred back to former employers by additional legislation. However, he does not see such an outcome in 1991:

"There will be a system overload—more and more people with no medical insurance will be in need of medical/health care. Given this, a number of situations may occur:

- Congress may elect to extend the COBRA benefits. Although this would extend the benefits available for a longer period of time, there is still the issue that these people cannot pay for COBRA because they are unemployed.
- This may be seen as an added impetus for Congress to create a National Health Policy/System/Program. This would be a program just for unemployed people with no medical insurance. However, this poses the question, 'How do we pay for such a system?'
  Do we tax employers to pay additional dollars?
  Do we increase the FICA tax? (today, a portion of FICA is allocated to Medicare)
  Do we remove the cap from taxable FICA wages?

"The ultimate stress in the long run will come back to the employers since they are responsible for originally terminating/displacing these people. However, I feel that although stressful, the loss of health care benefits will not really heat up as an issue until 1992."

Dan Mitchell:

"The history of Section 89 captures all that is wrong with public policy toward the employment relationship. There is no consensus on exactly what Americans expect from the employment relationship—in part because no one asks the question that way. Instead, we get piecemeal decision making on aspects of that relationship. So the notion of closing the gap in insurance coverage (without running it through the federal budget) becomes married to the (1950s) idea that employment is the logical home for insurance. The result was Section 89. Section 89 was supposed to spread benefits to the uncovered through its anti-discrimination rules.

"Of course there were difficulties.

"1) Many uncovered workers are at small firms where no one gets benefits. So non-discrimination rules don't help.

"2) Pre-Section 89 exclusions from coverage often tilted away from people with loose employment relationships such as part-timers and temporary workers. Whether such people should be provided with some form of coverage is a matter of public policy. But it didn't make much sense to do it through existing employer-provided programs which assume long-term attachments. And, in addition, it is often the case that people with loose attachments have different benefit needs than regular employees.

"We ended up in a situation where almost every major employer in the country had to revamp its benefit plans, only to find out in the end that the whole costly exercise had been unnecessary (when Section 89 was repealed). And this isn't the first time such a thing has happened. Remember catastrophic care? Employers with retiree benefits or elderly employees had to go through various contortions to deal with that program before it was abruptly repealed.

"You asked where this will lead in 1991 in the broader arena of public policy. Probably nowhere in the very short run. It may add some fuel to pressures to mandate health care since if everything is mandated,

you don't have to worry about discrimination. But in the longer run, I fear more on-again-off-again fiascoes. I cannot stress enough the importance of first addressing the employment relationship and what we expect from it before we dash off to modify bits and pieces of that relationship."

Steve Darien mentioned the need for a political shift toward accepting a tax-based health care system, but does not expect it to develop in the immediate future:

"The problems that have lead to cracks in our health care system will continue to worsen. A significant breakdown will be necessary before we see a breakthrough, before the American public confronts these issues and recognizes the need for basic structural change, such as a change of heart on the need to raise taxes. Business, which already provides support for its employees and underwrites uncompensated care by accepting cost-shifting, should not shoulder the entire burden of health care reform. This structural change will require additional funds, from the general public. At what point this will happen, only time will tell."

Gene Remoff also described a shift, but it is in terms of denying health care. He makes it clear, moreover, that care is denied ("rationed") to poor and uncovered people today.

"We are moving inevitably toward the need to make some hard choices, choices that have been made in other countries (e.g., Canada, U.K.), regarding the limits to which medical treatment can be provided. Not many studies address this notion head-on for it is very unpopular in the U.S. and is not presently in the minds of our citizens who either are (a) well-off and tolerate a significant increase in premiums or, (b) more commonly, retain the belief that their insurance program can continue to provide a major amount of reimbursement (catastrophic coverage) without regard to the degree of success likely from many types of treatment.

"Simply put, we are going to either eventually override other national priorities with enormous health care costs or else begin to say 'no' to treatments that evidence questionable positive outcomes or serve only to delay what is believed to be death, without interim recovery, of the patient. Some use the pejorative term 'rationing of health care' but, of course, for those who are poor, we have a kind of rationing now.

"As late as last year (see *Human Resources Outlook 1990*) I hoped that the Canadian system could offer a potential model around which we could fashion an approach in this country. Now I'm less enthusiastic about that view. The Canadian system also has problems with inflation, and is experiencing long hospital stays. Furthermore, its popular appeal would not be the same with our voting citizens, who are still used to wide-open choices of doctors, and hospitals, ready access to non-emergency treatment, and the 'try anything you think might help me, Doc...' view of medical expenditures. If we don't eventually make the choice to selectively limit medical treatment, rising costs may then make access impossible for large numbers of voters. That *breakdown* may cause a *breakthrough* in voter attitudes (if that's a good term for it) that moves us toward a national system."

In a practical mode, Mitchell Fromstein suggested that a controlled experimental program be initiated, with Federal (or possibly state or local?) authorities coordinating and managing a group effort:

"The macro problems are high costs of malpractice insurance for practitioners; over-usage and over-charging for services without a careful assessment of actual needs; duplication of expensive services at a hospital level; under-coverage or absence of coverage for 15 to 20 percent of the working population.

"It may be time for government to take an assertive role in policing the system in order to avoid a fully government-operated system. Government could organize a consortium of private insurers to offer standard coverages designed to meet agreed-upon needs and assume the costs for non-covered people while having employees assume the costs for the employed work force. The government portion would be tax supported.

"The government could, at the same time, abate the malpractice insurance cost problem by establishing an arbitration procedure on malpractice claims with high end limitations on awards. This would remove legal costs, unusual jury awards and exposures now faced by insurance companies. Finally, the government could establish regional or area medical services boards to oversee hospital costs and practices.

"These three elements would be the start of a private system to insure needed coverages while controlling the burgeoning delivery costs and legal problems. It would keep the government out of the health care business as a provider but allow it to monitor delivery practices and costs.

"I am a firm believer in pilot programs to try out possible solutions. I would like to see the government select a confined area and try a system with various control elements to see if it works."

One of the possible outcomes over the next five years is as follows: Two or three states make major moves toward mandated employer health benefits for a basic minimum package of benefits, with some minimum employer contribution. At that point, pressure would build for a Federal government mandate that pre-empts state requirements.

As such mandated benefits plans are considered, the problem of job mobility, self-employment, and other employment disruption will become more obvious. The solution ultimately may settle upon a trust-funded, portable basic health plan, paid for by required employer and employee contributions.

Economic Participation of Minorities and Women

Most of the panel members expect that legislative activity will continue in 1991, and that the proposed Civil Rights Act will be introduced in a different form, or with minor changes. Apart from regulatory moves, general management views about the diverse work force produced lively discussion. For example, the enlightened management point of view focuses on providing opportunities and support for minorities and women. One panel member, hearing this, wondered whether there was an implied assumption that a diverse work force might be less productive, and that management needed to "overcome" this possibility. The member suggested that management might take a completely different angle: assume that minorities and women will generate creative and innovative ideas—and vitality—that would never spring from a conventional white male management.

The competitive advantage in work force diversity was addressed by Madelyn Jennings:

"The essential EEO issue is that, whereas chairmen of corporations spout commitment to diversity, they aren't doing a very good job helping their managers learn to manage diversity or even believe the chairmen's rhetoric in their day-to-day decision making. The most seriously affected are African-Americans whose progress up the ranks in industry is so very disappointing. Managers understand that different doesn't mean deficient and it doesn't mean dumb. The essence of a bottom-line philosophy can be that if your work force is diverse, it will be broader, richer, see more possibilities and create more ideas. This could be a *hidden competitive edge* against our global competitors. In the United States, the white male leadership hasn't done such a bang-up job. More diverse leaders may improve our performance."

Gene Remoff agreed with Jennings on management's inadequacy, though he focused particularly on human resource managers:

"Those trying to break in, break through and move up in the work setting encounter obstacles that often have no rational basis for existing. Why would a business not want to hire and promote those persons who are best qualified? Why is the selection process, that denied me the job I wanted, so seemingly irrelevant and unfair? Why doesn't someone tell me why I was rejected? Isn't there a labor shortage? (Can't I be trained?) Why do all the jobs in this office start at 9:00 a.m., end at 5:00 p.m. Monday through Friday? Why doesn't management (which I am told is supposed to get paid for the results of their department) care about who I really am, what I'm willing to do, what skills and ideas I have?

"At this time many male-dominated managements, already not clear on what the relevant male qualifications are for many management jobs, don't know where the sexual bias (along with other bias) is in their selection practices, much less how (and why) to remove it. Nor do such managements know why or how they should restructure the workplace and work practices, in which they have taken comfort through the years, to now accommodate their increasingly female managerial and professional talent pool.

"At this moment we don't know how to digest the stream of poorly prepared young people, mostly minorities, into our increasingly demanding jobs. We don't know how we can recover the cost of remedial education (much less how to provide that education and why it's now management's responsibility).

"The effectiveness of human resources management efforts in this country varies tremendously from company to company. In too many cases it is why we are losing ground in the global market. These great differences in how firms manage their work forces can hardly be attributed to otherwise skilled managers deliberately intent on denying equal employment opportunity to a segment of their potential work force. Rather, it's simply due to managerial incompetence—and where it occurs, it has a profound effect on the employment opportunities for minorities and women. So, the culprit at this stage of our development as EEO employers is a very large lack of managerial awareness and skill regarding organizational effectiveness."

Rex Adams concentrated on promotion opportunities:

"Former Secretary of Labor Elizabeth Dole said back in July, 'The employment and promotions of women in all positions for which they are qualified, be it skilled or unskilled, blue- and white-collar jobs alike, is no longer an issue of moral suasion, it is a business and legal necessity.' The 'glass-ceiling initiative' is an effort to quicken the promotions of women and minorities to senior positions at companies receiving federal contracts. This is a top priority of the Department of Labor and is being driven directly by the OFCCP (Office of Federal Contract Compliance). A gut question, when the OFCCP comes knocking, is how centralized or decentralized the female/minority promotion decisions are. In the early OFCCP trial run (e.g., at PepsiCo) the compliance officers found the company's decentralization hard to believe.

"It seems clear that companies will be expected to go beyond offering a discrimination-free setting. Employers will be expected to 'reach out' much more than they have been expected to in the past. Given the past results experienced by most corporations in the hiring and promoting of women and minorities into upper management, corporations will need to continue to pursue affirmative action and upward mobility programs with renewed vigor. Programs with an objective of just achieving a discrimination-free setting will not meet the expectations

of a diverse work force and are not likely to be found acceptable by OFCCP when audited.

"The issues of diversity in the work force are going to continue to be significant to Corporate America, and, if anything, they are likely to become more contentious. Contributing factors include: (1) less progress with the effective integration of the races than one would have hoped; (2) most major cities continue to be residentially segregated and 'white flight' to the suburbs is a continuing phenomenon; (3) anecdotal evidence from universities suggests that the integration of minority students at most campuses is more nominal than real; and (4) growing tension within minority groups, between the educated and successful middle classes and the disadvantaged, and between minority groups, particularly between the older and more established black and Hispanic communities on the one hand, and the newly arrived groups from Southeast Asia on the other. These all contribute to the political polarization and political expression that will increasingly tempt politicians to displace some of the pressures of frustration and anger onto the backs of business.

"Bottom line, we should expect the political heat on women and minority issues to be turned up in the '90s."

David Lewin added Asian-American workers to the glass ceiling discussion:

"Consider, for example, the issue of the glass ceiling for Asian-American workers as well as female employees. This refers to the extremely small representation of both groups in middle and senior management ranks, despite the substantial amount and proportion of the hiring of both groups into entry-level positions. Will companies be pushed to go beyond current practices in this regard? I believe that they will, but not by legislation. Instead, the forces will be internal to business organizations, as Asian-Americans and women increase their levels of explicit protest about denied opportunities. In other words, work force diversity in the 1990s will focus on the executive suite and on middle management jobs. This is where the action will be in 1991."

The proposed Civil Rights Act of 1990, which will probably be introduced in altered form in 1991, focused on promotions in particular. Mitchell Fromstein suggested that this emphasis might induce some companies to avoid hiring minorities and women, so that the question of promotions will not be raised. His idea is echoed in an article by an EEOC lawyer, who pointed out that it is easier to discriminate in hiring, when the applicant is less able to discern and prove the fact.[1] Fromstein does not expect current regulatory proposals to improve opportunity:

"The Civil Rights Act, in my opinion, may solve a political problem but create an economic problem in that companies will be loath to hire the people who most need the work in fear of creating EEOC problems and costs after the hire. I believe (perhaps naively) that the worker shortage of the '90s will, by itself, reduce discrimination to some degree, and that age and sex discrimination is being reduced and will continue in that direction.

"The real problem in the end relates to color and mainly to blacks. The problem is shifting from one of hiring practices to the area of promotion and representation. In the larger companies where entry-level management talent comes mainly from business schools, there will be more opportunities than candidates. In smaller companies, I believe the progress will lag. The proposed Civil Rights Act centerpiece is the ability to sue for substantial damage awards; it will find its visible strength in the large companies with 'deep pockets.' This will take a very small bite out of the problem. It will generate more media coverage and impact than real job opportunity."

Legislation to prevent discrimination against disabled workers is still in the implementation stage. Rex Adams depicted the comprehensive nature of the regulations, while Alan Ewalt described the positive actions taken by his company:

"The ADA is the most comprehensive piece of federal civil rights legislation enacted since the Civil Rights Act of 1964 and extends to employment, public services, public accommodations and services, commercial facilities and telecommunications relay services. Perhaps the most important provision of this act is the creation of a private right of action for failure to make 'reasonable accommodations' for persons with a disability. This provision will now subject business judgments to judicial review. Therefore, decisions regarding accommodations for disabled persons must be carefully planned, consistent in every detail with the complex requirements of the law, and thoroughly defensible on the basis of fairness. Bottom line, during 1991 employers will need to address the following: (1) job descriptions and hiring and promotion criteria, (2) personnel selection and record-keeping procedures, (3) training managers and supervisors, and (4) accessibility of facilities."

(Ewalt):

"I'd like to add a description of a plan our company has implemented in the last two years. We call it 'Overcoming Challenges,' which is an initiative to enhance the employment of qualified persons with disabilities in our own work force. We began this effort in 1988 with the goal of accessing a portion of the labor force which has been underrepresented. We are

[1] James P. Scanlan, "Double-Edged Civil Rights," *The National Law Journal*, November 5, 1990, p. 15.

enthusiastic about what our facilities have achieved in a relatively short period. We've been warmed by the positive reception from our employees coast to coast as we provided briefings, education and sensitivity training on managing diversity and providing reasonable accommodation to persons with disabilities. Overcoming Challenges is a win-win situation where managers fill jobs with qualified persons with disabilities."

Supervision

Consideration of the nature of first-level supervision leads quickly to the question, "why take the job?" As workers function with increasing autonomy and power in their production and service jobs, a second question might be asked, "do we need first-line supervisors?" Finally comes the more constructive question about how far supervision and management itself must move from authority and control to communicating, developing, and leading. Panel members' comments covered these points.

Alan Ewalt referred to the supervisor's new role in "culture shock" terms, with a specific example:

"The role of first-line supervision is the toughest job in business today. As the knowledge worker and the more knowledgeable subordinate become more and more independent, the role of the supervisor becomes less an authoritative role and more a role of coordination. The supervisors who are experiencing programs in gainsharing, new manufacturing methods, total quality management, etc., are confronted with a whole new world of getting the job done. Total culture shock confronted supervisors as they entered plants such as the NUMMI plant in Fremont, California. This joint venture between General Motors and Toyota utilizes Japanese management methods and requires traditional U.S. experienced supervisors to adapt to Kaisan methods (Kaisan means continuous improvement). Supervisors no longer manage by fear and threat of firing, but by positive motivation, encouragement and communication. It sounds pretty good, but it is a tough transition for those first-line supervisors who have been doing it the traditional way for 20 years."

Madelyn Jennings mentioned the elimination of the first layer of supervision in team-managed plants:

"With the thrust toward teams, some companies are eliminating many first-line supervisory jobs. Employees, who know the job best, are working together to assume responsibility for decision making, setting goals and deadlines. Instead of first-line supervisors, the teams have resource people who support them in achieving their objectives.

"Another scenario for certain kinds of jobs is, finally, more emphasis on the development of strong first-line supervisors. Many are overworked, underpaid, underappreciated and untrained to lead today's work force. Programs are imposed on them, such as customer service, and they are not given a clue as to how to carry out what the people at the top think is a 'good idea'. The smart companies will spend much more time focusing on professional first-line supervision and the result will be improved work environments and improved productivity."

Rex Adams was blunt about the force of this change in supervisors' (and managers') prerogatives and power:

"There is an eagerness among human resources professionals to push the process of redefining the manager's job to accommodate the newly empowered employee. It's fair to say, however, that the empowerment process is not yet complete, and is only beginning in many of our more traditional union and non-union work forces. Even among so-called 'knowledge workers' the urge to empower is more keenly felt among HR people than it is among either managers or employees. There is a lingering sense of comfort in leaving the tough decisions to the boss, in maintaining an 'us against them' attitude. Until that trend is slowed or reversed, traditional managers in traditional roles will persist as the norm.

"But as the empowerment process grows, and employees begin to take more responsibilities for their careers and their work, the new managers will find they cannot predefine their roles. They will define their role based on the material they are working with at any one time. If they have raw talent, they must teach and monitor. If they have laggards, they must coerce work, if they have experienced, well-trained specialists, they must reward, encourage and get out of the way.

"Supervision will not be glamorous, and it will not be rewarding in the way it was. It will be like coaching a football or baseball team—less secure, less financially rewarding. Supervisors will be fired before their subordinates, and rarely praised except when results are unimpeachably good. Fewer people will want to be supervisors and managers, because it is more frustrating to guide than to direct.

"We HR people can most productively focus our energy on two fronts. First, we must continue to push the process of empowerment, opening the channels of communication so employees are better able to see for themselves what is best for them, rather than attempting (more and more fruitlessly) to define success in our terms rather than in theirs. We must do what we can to make our employees independent but committed to improving the organization while they are there.

"Second, we must 'de-mythify' supervision—remove the gloss from being the boss. We can give current and aspiring supervisors a hard dose of reality. Managers have less power, and what they have they must willingly share. Decision making is more of a chore, less rewarding, when you must get buy-in before you act."

Steve Darien has a more upbeat view of the same process, feeling that the supervisor is now "freed" of boring work:

"To the extent that more and more first-level workers can and do operate autonomously, the role of supervision will change for the better. Rather than being confined to repetitively monitor, review and clear the output of first-level workers, the supervisor will be freed to assess the efficacy and quality of his or her unit and functions. It should offer opportunity for a continually fresh look at the way in which a product is manufactured or a service provided in the light of changing circumstance both within the company and in the external environment. Further, it should encourage the first-level workers to accept and enjoy their autonomy and thus increase their efficiency and performance. Supervision, in short, becomes a positive experience (contributing to change and success) not a negative one (scrutinizing and criticizing the work of others)."

David Lewin returned to the question of rewards. Given the problems of the job, he was generally negative:

"As workers acquire more autonomy and enhance firm output and service, supervisors are threatened by a perceived diminution of their role and power, and by the potential for their jobs to be eliminated. After all, if workers can supervise and manage themselves, why are supervisors needed to replicate these processes? From a labor cost and labor cost-to-revenue point of view, true implementation of worker self-management, autonomous work teams, and other decentralized decision-making concepts, implies no need for overt supervision.

"The conundrum in all of this is that self-management and related concepts are just that—concepts—and thus are not likely to be fully implemented. One reason for this is that workers differ in terms of their risk preferences—not all workers prefer to fully self-manage. Senior exec-executives believe that the median worker, if no, all workers, share their own newly found belief in self-management and decentralization. But a more realistic view is that these preferences vary widely. Therefore, a 'demand' for first-line supervision will probably remain in place, though at a diminished level relative to prior eras.

"Moreover, even without a new emphasis on self-management and decentralized decision making, the growing ability of workers to achieve earning levels that exceed those of their direct supervisors (through overtime payments, shift differentials, and the like) clearly imply that disincentives exist for workers to accept supervisory jobs when they are offered. This is no small issue given the increase in overtime hours among hourly wage workers in the U.S. *and* the growing (unpaid) hours worked by salaried supervisors. In other words, the question, 'Why accept a supervisory job?' is an increasingly pregnant question and one increasingly likely to be answered with 'no reason at all.'

"If the phrases 'customer-driven', 'market-oriented', 'self-management', and the like not only have analytical meaning but actually become widely translated into practice, then the following will result: (1) a diminution in the power and role of first-line supervision, (2) the elimination of first-line supervision in certain settings, (3) a reduction in the labor cost/total cost ratio of businesses, even when workers are paid more for 'bigger' jobs, and (4) a gap in management development and succession plans of businesses whereby middle managers will become less likely to be drawn from the ranks of first-line supervisors. The limits to all these developments lie in the array of worker risk preferences for self-management, decentralized decision making, and other new initiatives referred to above."

Mitchell Fromstein identified problem-solving ability as the basic skill, the one that supervisors must develop in first-line workers through a mentor role:

"The role of supervision in the face of increasing front-line autonomy is a highly-complex subject that is receiving a great deal of attention in terms of emerging organizational concepts. The trend in 'breakthrough' companies is to focus on two elements: front-line empowerment and training. The front-liner, in fact, is the primary source of product and service quality. The trend is to provide the tools from the top and the execution at the bottom in the most effective manner. In contrast, the old system simply handed down power and control from one level to another. The result is less and less involvement at each level.

"The new system gives responsibility and accountability directly to the front-line, and uses the intermediate stages of management to train and coach the front-line to understand and use its power properly. The manager in this system becomes a combination of leader and trainer. The quality of supervision is measured by the degree and quality of independent performance at the front line.

"The key ingredient at the front line is *problem-solving ability* at whatever level is required by interface conditions. This could involve a hotel maid, an assembly line worker, a design engineer, a professor, or a salesperson. What is needed is a method of measuring a person's problem-solving ability and designing ways to increase it. The supervisor becomes a mentor rather than a controller. Fewer are needed but their abilities and methods are undergoing radical change."

The sports term "coach" appears frequently in descriptions of supervisors' new jobs. The parallels fit rather closely. "Coach" carries the implication of autonomy for the team players who are actually out on

the field, similar to the autonomy of a service worker dealing with customers. It implies the coach's responsibility to teach and to plan, but a lack of direct control. There is also an implication of disciplinarian in the term "coach," which is not entirely out of place in any realistic employer-employee relationship. Finally, "coach" usually brings to mind a football or basketball team: its connotations are male.

Gene Remoff described the developing supervisory job in these terms:

"The role of facilitator-coach requires that these new-concept supervisors:

"a) Accept the view that first-line employees want to do a good job, have ideas on how best to do the work and are willing to put those ideas into practice.

"b) Understand and be guided in their coaching of employees as to what the firm's standards are for product and service quality, cost control and ethical behavior. If these standards are quite demanding in all areas then conflicting goals may appear between short-term cost and longer-term quality objectives. The supervisor will continue to need support in reconciling such conflicts—something he or she didn't always get or seek when their role was more traditionally power-driven.

"c) Understand the differences between people in an increasingly diverse work force, and how that affects their approach to task preparation, work, need for recognition, and response to supervision.

"d) Deal in some cases with remedial education of workers who were not prepared by school and parental training to enter the work force with appropriate skills and modes of behavior.

"Finally, training and education of the supervisors themselves requires an investment of time and money by the firm's management.

"This is a particularly important issue because organizations are also thinning out the ranks and expanding the spans of control of middle management—the traditional coaches and facilitators of the supervisors themselves.

"For we should also acknowledge that increased responsibility and authority for one's work is not only being moved to the front-line worker. Companies are also pushing to analytical, problem-solving, and decision-making responsibilities from middle management to the front-line supervisor and also taking steps to listen more thoughtfully and openly to what these front-line supervisors say they need and don't need (stop the reports!) to better serve their customers."

Finally, Dan Mitchell reminded us that, in fact, the recent talk about reducing layers of supervision and management has been more talk than reality:

"There is one fly in the ointment. So far, the numbers don't suggest a thinning of management's ranks. Using the Census definition of 'executive, administrative, and managerial occupations' as a percent of all employees at business cycle peaks, we get the following results from the CPS:

1973:	8.9%
1979:	9.9
1989:	12.5

"If we use the much broader ratio of supervisors to all private nonfarm employees from the establishment survey, we get:

1973:	17.2%
1979:	18.3
1989:	19.1

"In short, if mean and lean is the projection, and if that means fewer supervisors and managers as a percent of the work force, it hasn't happened. But perhaps what is happening, or what will, is that the boundaries separating management from labor will grow fuzzy, perhaps because people who might not have been considered managers and supervisors are reclassified."

Variable Pay

A clear trend during this decade is toward much greater use of variable pay. In most cases, it is a given that variable pay is intended to call forth greater employee effort, and all attention is turned toward implementation, design, and other details. However, the purposes of variable pay—and the purposes of "base" pay—produce a strong undertow influencing the course of this strong trend in 1991 compensation planning.

Dan Mitchell identified two purposes for introducing variable pay. One of them is oriented toward management concerns (create an incentive for greater effort); the other is affected by general economic benefit flowing from wage flexibility, a somewhat more academic concern:

"It is important to note that the standard personnel approach to variable pay—whether of the profit sharing or incentive variety—has been that the bonus payments should be seen as something 'extra' (i.e., gravy on top of what you would have gotten anyway). The idea was that this would make you appreciate management's generosity (profit sharing) or make you want to do something extra (incentives). (In contemporary economics, there is even a 'gift exchange' theory to go along with this old idea.)

"The gravy approach is premised on the assumption that what you want to achieve from flexible pay is loyalty or more effort. Loyalty and effort, in turn, are

supposed to lead to higher productivity. But there could be another purpose for flexible pay programs—which became important in the 1980s as the economy became more volatile and uncertain. Flexible pay makes labor costs more flexible, thus sharing risks of the product market with labor (and reducing risks for capital). It may also allow more job security in exchange for less wage rate security. If what you want from flexible pay is more labor-cost flexibility then you need to have a large component of the wage subject to some kind of contingency. That is, the guaranteed base pay must shrink substantially as a percentage of expected compensation.

"During the 1980s, there was a spread of profit sharing into untraditional areas, especially the union sector. The motive was flexible labor costs rather than the older loyalty/incentive approach. But the share of flexible pay in total compensation has remained small in these newer plans. It is unclear whether the lump-sum bonuses that evolved in the union sector will become de facto profit sharing along the Japanese model. Special tax incentives for programs like profit sharing were proposed in the United States but never implemented. (In contrast, in Britain such tax incentives were adopted.) Thus, if there is a shift toward flexible pay plans for reasons of flexible labor costs, it is so far an unfinished revolution in the U.S.

"But there are two other considerations, depending on how you view flexible pay systems:

1) If you think about flexible pay systems as a way toward achieving flexible labor costs: We don't yet know if base pay has become less rigid than in the past. If that is the case, then the need for explicit flexible pay systems on top of the base is lessened. Currently rising unemployment will give us the answer soon. (We can thank Saddam Hussein for assisting in an interesting social science experiment in wage determination.)

2) If you think about flexible pay systems in the older way as a means to raise productivity through increased loyalty and incentives: There is growing research evidence suggesting these systems do work to raise productivity. If so, the older gravy view may continue. Firms with flexible pay systems might have base pay rates about equal to those of other firms and provide bonuses on top of the base which pay for themselves through added productivity. Flexible pay might spread without special tax incentives as management adopts the strategy for traditional reasons."

David Lewin pointed out that pay is determined by such factors as seniority, merit, equity, and cost-of-living. One might add to his list: competitive labor market rates for the job. He then observed that these govern pay for *inputs*, while variable pay is determined by *outputs*. For most work in today's economy, it is very difficult to determine (or even to define precisely) the output of the job. Therefore, variable pay may either be more subjective than it is reputed to be, or more subject to constant correction and revision. Lewin said:

"The underlying issue here is that multiple criteria continue to govern pay setting in most companies. These include cost-of-living, seniority, merit, equity, and other factors. Note that these criteria generally reflect pay for 'inputs', whereas variable pay plans are intended to reflect pay for 'output'.

"To the extent that business firms use variable pay less than their policy statements suggest they do, this behavior may reflect either an inherent risk aversion for variable pay or a major difficulty in measuring performance sufficiently to assign variable pay awards. The latter is no small problem, as is attested to by company experiences indicating that performance appraisal ratings show a strong tendency toward 'central tendency', and that these ratings are skewed toward the high end of the rating scales used. Also, numerous court decisions have been rendered which find performance appraisals to be invalid and unreliable, as used by companies. If merit is difficult to determine—and the difficulty may lie less in measurement of performance, than in supervisors and managers' knowledge that the ratings are used primarily for pay-setting purposes, so that they intentionally avoid making more discerning judgments—then the failure by companies to be more 'discriminating' in awarding merit pay is understandable.

"Two other points are worth noting here. First, in companies that have undergone and are undergoing reductions in force, the jobs of surviving employees usually become larger. Awarding merit pay (differentially) on top of base pay increases for these employees may be sensible because the overall 'wage bill', or labor cost to total cost ratios, may well decline. The motivational effects on job performance resulting from merit pay on top of base pay in these circumstances may also be quite positive.

"Second, the whole concept of merit pay is undergoing challenge, it seems to me, because growing proportions of companies are using profit-sharing and bonus plans which are based on department, division, business unit, or total company performance, not individual performance. Unless one chooses to retain a base pay, merit pay, and profit-sharing triad, which can be done, it seems that merit pay awards based on individual performance (appraisals) are perhaps 'on their way out.' In fact, such a development may have positive developmental consequences for employees in that if appraisals are not used primarily or at all to determine pay changes, they can be used for and targeted on employee coaching, counseling, career development, and skill upgrading. Hence, it is well worth pondering whether the time for individually-based merit pay decisions has come or should come to an end."

Madelyn Jennings is skeptical:

"My suspicion is that many of the variable pay plans have as their goal to contain costs. With as many companies as are currently reporting down quarters, variable pay may certainly lose its attractiveness for the worker. Typically, if a merit increase budget is 5 percent, they might raise base pay 2.5 percent and offer a variable portion of another 2.5 percent.

"In concept, base pay increases are intended to reflect cost of living and the variable portion was designed to reflect achievement of goals. From what I hear, some major companies are touting their variable plans when, in reality, if goals are met, they may mean $500 to $700 in incentive dollars per year to an employee. I'm not sure this is really an incentive."

Irving Margol pointed out that the variable part of pay is often affected by developments that are entirely outside of the employee's control:

"Variable pay, pay for performance, whatever you call it, is in vogue today. In concept it works well, but in practice it has a large number of problems, especially: on what is it based, and does it take into consideration factors outside the employees control? The latter issue has had an impact in some of our programs (i.e., collapse of the real estate market; cut back in defense spending), and turned people off.

"In our case, base pay can only go up if salary surveys indicate that the base salary is non-competitive. It has not been as much of a problem to us as the effect of the condition of the economy on the plans. Our base salary is the midpoint of the range. Employees can get annual increases up to the midpoint, then are frozen at this point, and variable pay kicks in depending on performance."

Mitchell Fromstein suggested that part of the reason for failure of variable pay plans is that they have not been "marketed" by management:

"We use buzz words like 'variable compensation' and 'line level empowerment' very freely and loosely in describing concepts and trends. They look very appealing in report form. What is necessary to make them fly is quite a different matter. At a corporate level, everything seems fine and logical—notably, the WEPCO [Wisconsin Electric Power Company] restructuring and the Du Pont variable pay. Beneath the surface, however, is clear evidence that the 'troops' impacted by the plans are anything but sanguine—even though apparent care was taken to be communicative, informative and participative.

"There is apparently a basic distrust of change when it appears in the form of management plans. Employees tend to see these changes as threats to job security, incomes or their positions in the organization. These distrusts will undermine programs in the earliest stages unless a way is found to minimize or eliminate them. What is interesting to me is that the same work force seems to trust the same management with strategy, product and marketing decisions which, in fact, have a greater impact on job security.

"What creates this credibility gap? How can it be narrowed? Is it in plan design? Communications? Does the use of outside consultants taint perception? I wonder whether the human resources function isn't going to need better marketing techniques to close this gap. As the current downturn subsides, we will be faced with a situation where quality, productivity, and profitability demands will conflict with a shrinking, diverse supply of employable people who have less and less bonding to an enterprise. Perhaps we are going to need human resources policy marketers in our major companies."

With regard to variable pay itself, Fromstein is positive:

"The trend toward the design and implementation of variable compensation plans (i.e., compensation other than fixed wages or salaries which is based upon a predetermined measurement or standard) became quite clear in 1990 and promises to continue in 1991 and beyond. The roots of the system lie in the necessity to have a greater assurance of increased productivity, product or service quality and a sense of 'ownership' in exchange for labor costs.

"In general, I believe companies are willing to pay these variables as additional labor costs in return for or based upon better performance as opposed to using them as transfer payment against current wage levels. In the long run, the variable payments will replace some of the automatic wage increases and outmoded merit raises which have increased labor costs without a related productivity increase.

"The problem in projecting the impact of this trend is in segmenting it into staff levels. At the higher levels, it involves stock options, profit incentives and performance bonus payments. These are usually in lieu of a portion of base salary increases. At lower levels, these are profit-sharing plans, merit raises and productivity bonuses which are usually pure incentives for better performance. The value of the plans is that management perceives it will get more for its money and workers feel that they can get more comparative pay for better or harder work. It doesn't work that way unless the gains on both sides are tangible.

"The problem with variable pay at the non-exempt levels is the perception that the variables are actually transfers from the fixed pay package. As such, they are acceptable in good times but are seen as pay reductions when the payout declines or disappears.

"The real question is whether the attitudes of non-exempt workers can be changed to view the variables as a premium rather than as a transfer. This will not be an easy task as the lower-level employees have an inherent distrust of upper management's motives and methods. This situation makes the common variety of profit-based premiums the most difficult plan to sell and implement. The variables which, in my opinion, have the best chance of success are those in which the individual worker or small teams and groups have a major hand in executing and a sense of 'control' over the outcome.

"I believe the trend will continue but the popular forms will change to make them better understood and accepted by the 'foot soldiers'."

The pay increases granted to executive and managerial ranks have been running about 5.5 to 6 percent in 1990, and the same rate of increase is expected in 1991 (see box, "Survey of Surveys," page 15). These figures are noticeably higher than the measurements of actual wage advances among non-managerial workers in 1990. Compensation experts frequently point out that the result of incumbents' job departures, and new promotions arriving, actually reduces the ultimate cost of planned increases such as those reported in the box. Therefore, they suggest, the planned increase is actually an overstatement of ultimate cost to companies.

Nevertheless, the Employment Cost Index (measuring the actual cost to companies) of the U.S. Bureau of Labor Statistics shows a 5.6 percent increase for executives, administrators, and managers in private industry, in the year ending in September 1990. This tends to confirm, rather than discount, the information provided by the survey of surveys.

Occupational Health and Environment

The panel was unanimous in expecting more 1991 regulation of business for environmental protection; and, with the exception of David Lewin, on occupational health as well. Health consciousness is rising, at the same time that regulation has forced out more information about damage to the environment. Recent articles about extra low frequency radiation raise questions about power transmission lines, and about video display screens. The modern "tight" building creates greater indoor air quality problems. All three Californians on the panel referred to the anti-emission regulations imposed on driving in southern California.

Steve Darien specified three subjects for regulation now:

"Issues of occupational health and environmental protection will continue to intensify throughout the decade. There are several reasons: 1) increased public awareness and sensitivity of the potential health hazards associated with air and water pollution, and the workplace, 2) the response of legislators at the local, state and federal level to tighten regulatory controls and punish wrongdoers, 3), the growing environmental and consumer health groups, particularly at the grassroots level, that have been extraordinarily successful in publicizing, and politicizing occupational and community risks created by industry, 4) the empowerment of individuals to obtain information about chemicals and biologicals used, stored and transported by manufacturing firms, and 5) the unrestricted license of informed, but generally technically and scientifically uninformed citizens, to present such data in ways that create the illusion of credible expert opinion.

"There will be more regulation of business concerning worker safety, environment protection, and a range of related health and *ethical* concerns posed by research and manufacturing. During the 1990s, we can expect OSHA [Occupational Safety and Health Act] to more closely mimic the EPA in terms of power and higher penalties for occupational-related injuries, including civil and/or criminal sanctions. Over the next five years, OSHA will highlight 1) indoor air, which is still a turf battle with the EPA but clearly an occupational health issue on which OSHA has been perceived to be weak, 2) fleet safety, considering that over-the-road accidents result in the highest number of occupational fatalities, and 3) process safety management, prompted by recent incidents and focused on prevention and emergency response procedures.

"As for environmental regulations, the impact of reporting of hazardous wastes under the U.S. Superfund Amendments and Reauthorization Act (SARA) Title III of 1986 is just beginning. Under SARA, companies that manufacture more than 75,000 pounds of any of the same chemicals are required to report the release of these chemicals to the air, to water and to disposal facilities to the EPA and their resident states. In addition, the law mandates that a disaster plan for emergency releases be developed and that under a Community Right-to-Know doctrine, the public has access to information about chemicals used, stored and transported by manufacturing firms. Information reported by industries in 1987 and 1988 is now publicly available, and numerous lists have been drawn up to point at the worst polluters of air and water and the largest discharges of hazardous waste to treatment plants. The quantity and composition of industrial discharges will certainly fuel the public interest in pushing for more stringent regulations under the Clean Air Act and other local and state environmental protection statutes.

"Other health-related regulations related to the workplace and environment will be expected to increase in the areas of animal welfare, biotechnology (e.g. genetically engineering plants, animals and pesticides), and genetic analysis as part of employment screening."

Madelyn Jennings expects a very hot regulatory climate:

"There's no question in my mind but that there will be more regulation of business as regards occupational health and environmental damage. There are so many constituencies t[illegible]y interested in these issues, there's no way it could be otherwise. The environment, both in terms of personal safety/lifestyles, the workplace and the planet, has never been of more concern to people in the United States. Some pressure will result in voluntary guidelines and specific standards in such areas as cumulative trauma disorder, video display terminals (radiation, high-frequency sound emission), airborne particles/air quality, water quality, toxic materials and waste, and on and on."

Rex Adams, speaking from an industry with clear environmental involvement, also addressed occupational health protection:

"Legislative proposals will continue to proliferate requiring employers to notify past and present workers of alleged risks of developing occupational diseases. This will require, in turn, costly burdens of increased exposure monitoring, medical surveillance, and administrative procedures. Profiles of worker exposure will become increasingly important as litigation continues to escalate.

"Court rulings may expand the opportunities for injured workers and survivors of deceased workers to seek jury trials for judgments and criminal proceedings against employers for health related claims. Litigation costs and awards are expected to grow.

"There is the possibility that legislation will be passed that would hold corporate officers liable for injuries and deaths resulting from workplace safety violations.

"The general public appears more willing to accept higher costs to achieve a cleaner and healthier environment. Expanding environmental health and safety laws and regulations will change the way the industry conducts its business. These issues will play a greater role in capital investment choices and in product formulation.

"Public concern and government agency scrutiny of industrial practices and products will intensify. Industry can expect a higher level of shareholder, employee, customer and public participation and oversight. There will be increasing calls for companies to adhere to codes of environmental practices, to monitor and publicly disclose their environmental performance, and to appoint environmental managers and/or board members."

European Labor Market Integration

The European Community is moving rapidly toward economic integration in 1992. The emphasis has been on integration of financial systems, although issues involving the labor market are now coming into focus. At present, each of the nations in the Community has its own set of labor protective regulations. Unions, also, differ from country to country, even though pan-European union activity has been organized in some situations. Employer policy and standard operating traditions differ from country to country and, of course, from industry to industry.

Most powerfully, total compensation levels vary widely from country to country, and even region to region within countries. These differences in total compensation are due to two factors: varying labor productivity rates, and varying labor supply-demand situations (the unemployment rates in an area). Theoretically, wage rates that fully reflect these real differences in labor demand and labor productivity will, over time, equalize labor costs per unit of output throughout the Community. Mobility of capital and mobility of labor are fostered, and so is the flexibility and adaptability of employment.

Now, however, a regulatory presence representing the Commun[illegible] as a whole is interested in establishing some overall standards for wages and working conditions. As the standards are proposed, it becomes clear that competition among labor markets is present and probably will continue. The clash seems to be focused on the details within each regulation. For example, one current issue is the minimum hours of rest required between work turns. Others concern benefits for part-time or temporary workers. In most cases, extensive variation in details of national regulation must either be overridden or some compromise reached.

Outlook panel members Dan Mitchell and Steven Darien offered to provide specific discussion of a few points in this broad program to "harmonize" European labor market traditions and regulations. The subjects they covered are important to U.S.-based companies for two reasons: first, most large and middle-sized U.S. companies are operating within the Community, or certainly are competing with Community-based enterprises. Second, the U.S. can learn from closely observing the EC's present efforts to regulate and standardize labor market functioning. The two boxes that follow discuss benefits thinking in the EC ("Employee Benefits and European Integration," by Dan Mitchell, on pages 27-28) and several aspects of compensation and mobility ("Unification of Some Employer Practices in Europe," by Steven Darien, on page 29).

Employee Benefits and European Integration

by Daniel J.B. Mitchell
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There is much hype behind Europe '92 but also much reality. Over a period of time—but not all on one date—European product markets will become more integrated, competitive, and risky. Inevitably, European labor markets will be affected, just as American labor markets were affected, by increased competition and uncertainty in the 1980s.

Two important implications for American human resources specialists will emerge from this process. First, companies with European operations will have to adapt to—and possibly seek to influence—the public policies that are emerging. Second, the U.S. can learn from the diversity of European practices in shaping its own human resources policies.

I. Unification of Social Insurance?

In both the U.S. and Europe, various forms of social insurance (pensions, health benefits, and similar programs) have become linked to work. Some are publicly provided in the form of Social Security. Others are privately provided by individual employers. And in some cases quasi-public national funds outside the formal Social Security system are the suppliers. Each member state of the European Community (EC) has its own unique system. Will greater integration of EC product markets eventually lead to a uniform system of European social insurance—both public and private?

The short answer is "no." EC national practices are simply too diverse and too many employees are already in the pipeline for such unification to occur. Moreover, despite the developing competitive forces, there is little economic pressure to standardize social insurance. Social insurance basically involves the mix of compensation (e.g., how much the worker receives in cash and how much in pension contribution). Competitive forces primarily involve total labor cost, regardless of mix. Competition will create added pressure for standardization of total compensation and/or of practices that affect productivity. That is, the current diversity in practices regarding hours, layoffs, and vacations—policies that influence the firm's ability to adapt to changing market forces—is at risk in the post-1992 environment. Variation in the mix of wages vs. social insurance will be less a matter of economics and more a matter of social policy, politics, and national tastes and traditions.

If substantial cross-border labor mobility were to develop in the post-1992 EC, the economic forces for more unified social insurance would emerge. However, such a development is unlikely in the foreseeable future. Under current law, residents of one EC country may work in another. Limited mechanisms exist for facilitating transfers between basic public social security systems for these workers. Yet language and cultural barriers have held intra-EC mobility to minimal proportions in the past and will continue to do so. In fact, much of the foreign work force within the EC comes from non-EC sources, such as northern Africa and Turkey. The only exception is a growing class of multilingual Euro-executives and Eurocrats, whose mobility is complicated by diverse social insurance practices. But their numbers are—and will be—too small to drive national or EC social insurance policies.

II. Harmonization of Social Insurance?

Growing authority in the EC political apparatus is more likely to bring about harmonization of social insurance rather than unification. Comparisons can be made of such outcomes of social insurance as age of retirement, pension/wage replacement ratios, life expectancy, and infant mortality. Data on these outcomes are already readily available on the health side; on the retirement side efforts at uniform and continuous statistical reporting are just beginning.

As outcome discrepancies are reported and discussed, there will be pressure on deviant countries to modify their results. But such social harmonization is a vague goal and not something for the near future. Moreover, it is widely recognized that the poorer periphery countries within the EC (Portugal, Spain, Greece) cannot be expected to produce the same social outcomes as the richer core countries.

While social harmonization is at best a distant objective, financial harmonization is on a faster track. Private pension funds (in those EC countries that use them) can be significant financial institutions, just as they are in the U.S. It was quickly realized that efforts to create a common market in financial services could not ignore these funds. Large multinational firms have an interest in creating EC-wide pension funds to achieve economies of scale in investment and administration. Such funds would follow the laws and practices of each member nation with regard to benefit amount and eligibility, but they could pool the company's financial resources in a single "pot." Banks, insurance companies, and other providers could compete across borders to provide services to private pension funds or individuals using tax-advantaged retirement savings arrangements. Financial harmonization in the employee benefits area is a likely near-term result of Europe '92.

III. Internal Social Insurance Arrangements

In the U.S. we have come to associate health insurance and pensions with the job, largely because our tax code provides strong incentives for employers to provide these benefits. The European pattern is quite different. In some

countries, health benefits are not linked to the labor-market at all (e.g., Britain with its national health service). British employers have no special involvement with the health service. They do not even pay payroll taxes to support it, since the service is funded from general government revenue. Thus, a typical British employer wouldn't know an HMO from a PPO, has never heard of managed care, and does not worry about health care cost containment. In other countries, such as France, health care benefits are handled through national insurance mechanisms. Employers may worry about the magnitude of the payroll taxes or premiums which support these mechanisms, but they have little day-to-day involvement in administration.

With regard to pensions, Europe is moving away from the American view that private retirement systems should be job-related and toward the idea that such systems should be work-related. That is, even private retirement systems are being encouraged (or required) to provide truly portable pensions on a near-universal basis. Those countries that provide pensions almost exclusively through public or quasi-public national systems (France, Italy) have long had portable pensions. Ironically, despite their collectivist origins, these systems mesh well with a free labor market. Even those countries with traditions of private, company-by-company pensions are rearranging those systems to operate as if they were unified systems.

Two issues arise in pension portability and job mobility: vesting and benefit formulas. Under current American practice, vesting typically occurs after five years of seniority. Workers who leave before reaching the five-year point acquire no rights. So individuals who frequently change jobs may have no pension entitlements even though they worked under several pension plans.

Even those workers who do vest are disadvantaged under the U.S. defined-benefit system, if they change jobs in mid-career. Eventual monthly pension benefits are commonly determined with reference to final earnings in nominal dollars. Inflation, even at modest rates, quickly erodes the real value of pension rights that were acquired years ago. Thus, a career of three consecutive ten-year jobs will lead to a pension substantially lower than one job for thirty years. European employers are being pushed to provide for interplan financial transfers on behalf of job changers so that the American-style bias against the outwardly-mobile worker is reduced or eliminated. Similarly, European health benefits typically do not exclude "pre-existing illnesses," a feature of American job-related health insurance that can inhibit labor mobility.

IV. Lessons for the U.S.?

In broad terms, European social insurance problems mirror those in the U.S. Baby boom demographics will raise the proportion of the elderly who will have to be supported by active workers early in the next century. Should steps be taken to reverse the trend toward early retirement? Health care cost containment is a problem, even if individual employers don't have to worry about it. If access to health care is not rationed by price to the consumer, how will it be rationed? Obviously, countries can learn from each other as they wrestle with these dilemmas in the future.

But the European approach to creating portable pensions and health insurance is something that Americans should be studying now. When the winds of competition blew through the American economy in the 1980s, employers began to back away from the promises of job security and paternalism on which the American pension and insurance system was based. Employee mobility—both voluntary and involuntary—increased. This increase exacerbated problems of pension vesting, inflation-eroded pension benefit formulas, and pre-existing illnesses under health plans. Health coverage for laid-off workers became a topic of controversy.

Consider in contrast, British social insurance arrangements. Under recent reforms, company pensions now have vesting at two years. So even persons with relatively short job attachments acquire rights. Individuals can opt out of either company pensions or equivalent public arrangements and have their own individual pensions instead. These individual pensions—essentially defined contribution plans—are 100 percent portable. For health service, eligibility is not connected with employment and therefore does not impede job mobility.

Many of the economic forces that were felt in the U.S. in the 1980s were also experienced in Europe. The projection in Europe, however, is that the integration symbolized by Europe '92 will create still more pressure. Companies will have to restructure and then restructure again as markets become more competitive and more uncertain. Some companies won't survive. Others will thrive and hire the work forces of those who fail. Europe '92 is likely to produce an upsurge in labor mobility within each country. Social insurance arrangements must therefore be work-related, not job-related.

In the global economy, whose social insurance arrangements are more in accord with competition, Europe's or the U.S.? Europe is acquiring the edge.

Unification of Some Employer Practices in Europe

by Steven Darien
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Wage Levels

We believe that in the near future we will see the maintenance of a market-driven cost of labor. Until such time as monetary union (European, as opposed to country-by-country) cost of living is established, each market will retain sufficient differences in its structure to ensure the continuation of a market price that reflects purely local (i.e., single State) considerations. Thus, true variations in productivity and labor supply will continue to determine wage levels but within the confines of existing market place dynamics.

There is some evidence that there is a gradual convergence of net disposable income at key executive levels. It is likely that such convergence will continue as the incidence of cross-border mobility accelerates among senior managers.

One interesting exception to a purely market-driven price may occur (and to some extent has already occurred) in those plants located close to state borders. For example, Portuguese factories close to the Spanish border may find that to attract the local labor supply they will have to offer wages similar to those paid by a nearby Spanish plant. Companies operating in the French area around Annecy have for some time felt the impact of higher wage rates offered by nearby Swiss employers.

Job Loss

The Social Charter establishes the right to "adequate social protection" and financial protection through social security benefits that are proportionate to age and length of service. The Directives also give rights of consultation in the event of impending closures, and impose certain procedural obligations where redundancy becomes inevitable.

Our feeling is that current practices adopted in regard to consultation and compensation for loss of job by multinational organizations far exceed that required by present or future law. Any new legislation in this area will not require any major rethinking by such companies in the event of job losses.

Vacations

The Social Charter gives an indication that future EC legislation and regulation will do nothing more than establish the right to paid vacations. It is most unlikely that any attempt will be made to establish pan-European vacation standards that will impact the practice of multinationals. As it is, we exist quite openly with different vacation entitlements among companies operating within one Member State, let alone all twelve States.

Management Consultation with Employees

Any change in the current climate and style of union-management codetermination is more likely to be driven by change in legislation than by any natural social change from within. Two important draft directives, which should be viewed together (the European Company Statute and the Fifth Directive on company law) are designed to encourage across-the-board employee participation.

The European Company Statute creates a new pan-European legal entity, generally known as an SE (Societas Europeas), that brings with it certain fiscal and accounting benefits. In return for such benefits, companies wishing to create their own SE will have to apply one of three given models of employee participation. Each model gives, to a greater or lesser extent, an active involvement of employees in certain decisions affecting the future of the SE and certain rights of consultation through employee representatives.

The Fifth Directive consolidates those rights of participation and goes on to establish other rights of representation.

There is a third and somewhat controversial directive, coloquially known as the Vredeling Directive, which seeks to establish a series of rights giving all employees information on company results, employment situation and foreseeable development. It also seeks to ensure that employee representatives should be consulted by management "in good time" before decisions that are likely to have substantial effect on the interests of workers.

Clearly the adoption of any or all of the above will have a marked effect on the existing, varied processes of union-management codetermination—within the European Parliament, the Council of Ministers, and to some extent the Commission itself. The Commission's President, Jacques Delors, is committed to delivering some sort of progress toward codetermination.

Word on the street suggests that if the fiscal benefits of adopting an SE status can be beefed up, the European Company Statute stands a chance of being adopted by the Council of Ministers. Vredeling, however, remains on the back burner for the time being.

Economic Adversaries

With a general prospect of no economic growth during 1991, and possibly low growth thereafter, equity conflicts may occur. The outlook panel considered some of the difficulties that could develop politically, socially, and even within corporations. Rex Adams described this in general terms:

"One of the most troubling consequences of economic stagnation is the inevitable tendency to adversarial conflict between social groupings. I lived and worked in the U.K. during the late '60s and early '70s and witnessed first hand the embittered politics of resentment and reaction that contributed so markedly to British economic decline and loss of social confidence. In their case, the conflict was rooted in their class system and found expression in the political arena through the policies of political parties built squarely on the principles of class interests. In our case, the conflicts between contending groups arise from the adversarial traditions of a litigious society.

"In periods of relative economic decline, the issues of distributional justice arise and the clamorous process of more people fighting over less pie begins in earnest."

There is developing conflict over supporting the retired, as the burden falls on workers. The ratio of retired to employed does not start to rise until the end of the '90s, yet David Lewin thinks the pressure is already on:

"The ratio of retirees to workers is increasing in several developed countries, not only the U.S., which presents a key problem: how does a nation finance retiree benefits and living standards with a shrinking support base? I believe that this issue will sharpen in clarity and importance in 1991, irrespective of the state of the economy. A country which faces this problem more severely than the U.S. is Japan. However, the limits to income transfers from workers to retirees will become more apparent in the near-term future across a range of developed countries."

Irving Margol mentioned two areas of conflict: benefits (including health care), and employment opportunity (when the benefits are insufficient for support):

"We are already seeing these adversaries in play as Congress addresses the budget and deficit issues. As the population of retired persons continues to grow, allocations of social funds like Medicare may also grow. Since the government will need a larger source of funds, the workers may see a decrease in their disposable income due to an increased tax, setting up adversary relationships.

"At Security, we see those roles played out in two areas: (1) benefits and (2) employment opportunities. Free health care insurance is given to our retirees. The workers feel that they are paying for part of this in their increased premiums.

"We see a slowdown in the number of early retirements and a slight increase on workers staying on past age 65. As this occurs, the younger work force see their opportunities put on hold."

Mitchell Fromstein pointed out that the nucleus of the recent Section 89 regulation (since rescinded) was pension plans. He suggests that: "The future will require a pension system that is mandatory, homogeneous and portable."

Gene Remoff predicted that the clash over support of the retired will not develop during the first part of the 1990s:

"Much of this battle won't come into focus in the next four years. Later on in the 1990s the demands on a relatively smaller work force to provide services for a relatively larger retired population would be a very aggravating burden if these workers experienced no rise in their own living standard. The burden would build, most likely, on two fronts, higher taxation to support transfer payments and higher-cost, longer periods of personal support for aging members of their own families.

"On the other hand, there are many older citizens (although not the majority) who have accumulated considerable net worth that they will not consume in their own lifetimes—for example, the succeeding generation of supporting workers may often be looking at a substantial inheritance, even if it's just their deceased parents' home."

Gene Remoff identified as adversaries the poor vs. the self-sufficient:

"The condition of the poor has taken on a set of characteristics that didn't exist in the prior history of this country. These characteristics have the look of permanence. They include deteriorating educational preparedness in the face of escalating skill demands of better-paying jobs, habitation in isolated ghetto areas that are removed from access and proximity to the most attractive employers, and a lack of leadership in local, state and federal governments willing to put funding to address these issues at the top of their list of priorities.

"The self-sufficient, therefore, not only see their taxes consumed in non-productive government spending, but are bound to see a portion of the GNP they produce consumed by welfare payments that do not move members of the poor population into a participating productive partnership in the economy.

David Lewin and Madelyn Jennings pointed out that the middle class, with political involvement, dominates any "class struggle" in the United States. Lewin said:

"Middle-income workers view their taxes as supporting the poor and subsidizing the rich; as providing social benefits to groups at the 'extremes'; and as supporting government programs which draw down their resources without necessarily providing offsetting or compensating social benefits. Hence, I expect to see

sharpened conflicts in 1991 between middle-income workers and other worker groups, high and low, rather than between high and low income workers, per se.

(Madelyn Jennings):

"You might add to your adversary groups the underclass vs. middle/upper class with issues at contention including social benefits, educational equity and economic burden. And then there are the knows vs. the know-nots with similar issues at contention. Obviously, what happens to these new adversarial divisions under conditions of stagnant economic growth, no rising standard of living, is that they worsen when the pie shrinks.

"There is another adversarial relationship deepening between business and government as each seeks to contain costs in the face of more and more critical social problems (illiteracy, medical care, education, etc.). We must forge more alliances between business and government if we are to solve some of these problems."

With respect to economic competition between women and men, Gene Remoff observed:

"In the work setting, the struggle intensifies if economic growth slides markedly for any period of time and slows down job creation. Women need to count on jobs opening in higher paid categories under conditions where there aren't enough qualified males available. This, I'm afraid, is what is needed to pull them through—or remove the glass ceiling."

David Lewin suggested that the U.S. is less likely to see such a struggle than other industrialized countries:

"The issue of men vs. women is more pressing abroad. Western European firms have far fewer female managers than U.S. firms, and have progressed far less on female employment generally than has the U.S. The rejection by young Japanese women of traditional male-female roles in that country is becoming more apparent, and will work its effects on employment relationships. And, in recognition of globalization, consider male-female work roles in Eastern Europe and the Mideast. By these comparisons, I judge U.S. male-female conflicts to be of a modest order."

The conflict between domestic interests and international trade interests is likely to continue in 1991. For example, Dan Mitchell pointed to the concern over foreign direct investments, suggesting that auto "transplants" compete, just as much as imports, with GM-Ford-Chrysler. Gene Remoff discussed protectionism:

"U.S. industrialists, trade unionists, and any associated reactive politicians who will seek to protect a favored position for domestic producers in the face of more efficient and effective sources elsewhere on the globe, will struggle with those who are world-oriented in their economic outlook. A dimension of effective leadership of a business enterprise is 'staying in touch with reality'. The U.S.S.R. (or a successor confederation of Soviet republics) will, after a few years of pain, be a major economic force with its technically well-educated population, massive natural resources and huge potential markets. And what about China?"

Mitchell Fromstein concluded the discussion with a proposal for a constructive business role:

"Present conditions require more conciliation and compromise between the adversarial groups than ever before (perhaps with exception of the 1932-35 period), and yet, we are moving in an opposite direction exacerbated by a press and politic who are insensitive to the dangers of extreme positions.

"In a very real sense, these adversarial relationships are played out each day in the workplace. Certainly, the conflicts between genders, ethnic groups, age groups, and earning levels are present and visible to anyone who cares enough to see them. Even the ultimate conflicts between the employed and unemployed relate to workplace factors when layoffs, mergers, restructuring, etc., take place.

"While the private sector can't solve all of these problems to everyone's satisfaction, I believe that human resources policies, if carefully designed and executed, can defuse much of the adversarial perceptions. We have dealt in this panel with the hot issues of health care, civil rights, pensions, and other entitlements, as well as with unemployment and the impact of a potential recession. Are these not the basic root causes of the adversarial problems?

"Has the time come for private business as a whole to address ways in which it can defuse adversaries with whom it deals and adopt policies and practices to minimize the sense of difference in equity between the groups? It is not an easy task when profitability is pressured by these efforts. I believe, however, that there is a middle ground where business has an important psychological role to play to avoid government intervention—or perhaps worse."

The 1991 outlook is subdued by economic stagnation. Also, there is discouragement that public initiatives have not meliorated social problems—so social costs are becoming a burden to business. This is true of health care, education, equal opportunity, and old-age dependency. All of this comes at a time of fierce competition, when most businesses are intent upon cost-cutting rather than burden-assuming.

Nevertheless, as Mitchell Fromstein suggests above, business cannot escape the society and must take a leadership role. Some of the constructive ideas in this report, and in the *1990 Human Resources Outlook*, need to be adopted by more business leaders and brought to a point of success.

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